— HEARING PANEL REPORT —

ADDRESSING MILK MOVEMENT ISSUES CONTAINED IN THE
STABILIZATION AND MARKETING PLANS
FOR NORTHERN AND SOUTHERN CALIFORNIA
BASED UPON PUBLIC HEARINGS HELD ON JUNE 28 AND JULY 2, 2001

This Report of the Hearing Panel regarding proposed amendments to the Stabilization and Marketing Plans for Northern California and Southern California (Plans) is based on evidence received into the Department of Food and Agriculture's hearing folder. The folder includes the Departmental exhibits, written statements and comments received from interested parties, written and oral testimony received at two public hearings held June 28, 2001 and July 2, 2001 and written post–hearing briefs.

The analyses, discussions and recommendations contained in this report are limited to the proposed amendments to the Plans. For analyses, discussions and recommendations pertaining to proposed amendments to the Pooling Plan for Market Milk, please refer to the associated panel report.

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INTRODUCTION

The Department held two public hearings on Thursday, June 28, 2001 in Ontario and on Monday July 2, 2001 in Sacramento. The hearings considered amendments to milk movement incentives, namely, transportation allowances, transportation credits and call provisions, as provided in the Milk Stabilization and Marketing Plans for Market Milk and the Pooling Plan for Market Milk (Plans). The Department called the hearing after receiving a petition from the Imperial County's Agricultural Commissioner Office (IC). After the receipt of that petition, alternative proposals were received by California Dairies, Inc. (CDI), Land O'Lakes (LOL), Milk Producers Council (MPC) and Producers Dairy Foods, Inc. (PDF).

Hearing Witnesses:

A total of sixteen witnesses testified including the Department's witness.

1. Candace Gates — CDFA
2. Stephen Birdsall — Imperial County Agricultural Commissioners Office
3. Gary Korsmeier — California Dairies, Inc.
4. Jay Goold — Western United Dairymen
5. Tiffany LaMendola — Western United Dairymen
6. Edward McGrew — Dairy Attraction Committee for Imperial County
7. William Schiek — Dairy Institute of California
8. James Dolan — Driftwood Dairy
9. Kevin McLaughlin — Security Milk Producers
10. Richard Shehadey — Producers Dairy Foods, Inc.
11. Geoffrey Vanden Heuvel — Milk Producers Council
12. James Gruebele — Land O' Lakes
13. Richard Sturgeon — Suiza Foods, Inc.
14. Charles English — Suiza Foods, Inc.
15. Robert Ham — representing Assemblyman David Kelly
16. Sharon Hale — Crystal Cream and Butter

In addition, written submissions were received from six people who did not give oral testimony:

17. David L. Parrish — Dairy Farmers of America
18. Clifford Caldwell — El Centro Chamber of Commerce
19. Duncan Hunter — U.S. House of Representatives
20. Lauren S. Grizzle — Imperial Valley Vegetable Growers Association and Imperial County Farm Bureau
21. Donald P. Glud — Valley Independent Bank
22. Gary Stueve — Dean Foods Company

Attachment A–1 summarizes the panel's recommendations and arguments.
Attachment A–2 summarizes the testimony, written statements and post–hearing briefs.

Analysis, Discussion and Recommendation for Amendments to Transportation Credits and Call Provisions

Background

During 2000, the Department held a series of four industry workshops that attempted to review fully all aspects of milk movement incentives. A primary objective of the workshops was to try to reach a consensus on potential changes to the structure and scope of the milk movement incentive program. The workshops concluded without industry consensus; rather, the participants urged the Department to consider reviewing the unresolved issues in a public hearing forum.

The last hearing to make any changes to the transportation allowance system was held July 19, 1994 with the amendments effective September 1, 1994. The last hearing to make any changes to the transportation credit system and the call provisions was held October 9, 1996 with the amendments effective December 1, 1996.

Transportation Credits

What they are and how they work — In 1981, transportation credits were introduced to reduce the cost of plant–to–plant shipments. At one time, milk marketing areas in California were more numerous, and differences in hundredweight prices among milk marketing areas were sufficient to cover the cost of moving milk from one processing plant to another. However, with marketing area consolidation, these price differences were no longer capable of covering the cost of interplant shipments.

Transportation credits offset some of the cost of hauling milk assigned to Class 1 usage from plants in designated supply counties to plants in designated deficit counties. Handlers located in designated supply counties may deduct a specified transportation credit from applicable minimum prices for bulk market milk and bulk market skim milk shipped to a plant located in a designated deficit county. Shipments of condensed skim milk and market cream are not covered by transportation credits. A more complete discussion of transportation credits can be found in the Departmental publication, *"Options to Facilitate Orderly Movement of Milk to California's Fluid Markets"*.

Introduction of Proposals — Three organizations proposed changes to the transportation credit system. The suggested amendments are summarized below.

California Dairies, Inc.

1) Milk shipped from Tulare County plants must go to plants in Riverside, Orange or Los Angeles counties to qualify
   a) Decrease rate from $0.50 to $0.30 per cwt.
2) Milk shipped from Fresno County plants do not qualify for a credit

Land O'Lakes

1) Milk shipped from Tulare County plants to San Diego and Riverside counties qualifies for a credit of $0.695 per cwt.
2) Milk shipped from Tulare County plants to Ventura, Los Angeles and Orange counties qualifies for a credit of $0.625 per cwt.

Milk Producers Council

1) The combination of the area Class 1 differential and the transportation credit should not exceed the applicable transportation allowance rate associated with the distance traveled.
2) Applies to all qualifying plants statewide

Impact of Proposals

The proposals were assessed using static analyses with monthly data from 2000. No assumptions were made regarding changes in milk movement patterns as a possible result of implementing any of the proposals. The "regulatory templates" generated by each proposal were overlaid on the milk movements that occurred in 2000, and costs were calculated accordingly. The cost of each proposal was compared to the cost generated by the current system on identical milk movements. The impact of the MPC transportation credit proposal was calculated using MPC's transportation allowance figures as the guideline. Table 1 shows that the proposals by CDI and MPC result in cost decreases to the pool while the LOL proposal would result in cost increases to the pool.

Table 1. Monthly Average Impacts for Various Proposed Changes to the Transportation Allowance System Using 2000 Data

	Current	Proposed	Difference
CDI, Southern California	$157,866	$94,720	–$63,146
LOL, Southern California	$157,866	$219,434	$61,568
MPC, Northern California	$12,437	$11,455	–$982
MPC, Southern California	$157,866	$120,610	–$37,256

Discussion

Why Milk Movement Incentives are Needed — In the first of the four Departmental workshops on milk movement incentives, the consensus of the participants was that a regulated system to move milk to the higher usages needs to be maintained. The group conceded that milk may move appropriately without a regulated system. However, one of the underlying tenets of instituting a pooling program in California was to ensure that Class 1 plants continued to be served in the absence of direct incentives for producers to ship their milk to those plants.

Since the inception of the pooling program, few significant changes have been implemented in the mechanisms used to compensate those dairy farmers who supply milk to Class 1 plants. Consequently, there is no direct and compelling economic reason for a producer to ship milk to a fluid milk plant. In the late 1960s and early 1970s, this was not of concern because Class 1 utilization hovered near 65 percent of California's total milk production. Today, Class 1 utilization is less than 20 percent, and almost three–quarters of California's milk production is used to manufacture cheese, butter and nonfat dry milk.

To further compound the problem of getting milk to move to higher usages, many manufacturing plants pay premiums, and most cooperative plants distribute annual dividends. These monies are paid to producers in addition to regulated minimum prices and are not subject to pooling. The producers who ship milk to manufacturing plants may receive both the appropriate pool price (quota, overbase or a blend of the two) plus an associated premium or dividend. The availability of these economic incentives may cause some milk production that would have been shipped to fluid milk plants to be diverted to manufacturing plants.

The Southern California Milk Marketing Area exemplifies the changing nature of market structure. Although Southern California has been traditionally viewed as a deficit market, that may no longer be the case. The hearing record is replete with definitions of a "deficit market". Not surprisingly, the descriptions of a "deficit market" not only reflected the positions of the witnesses, but supported them as well. The definition for the term "deficit market" is not precise, but for the task at hand, a precise definition is not needed. Most recognize "deficit market" as a general term used to describe the conditions of a market vis-à-vis a "surplus market". Nonetheless, the panel puts forth its working definition of a deficit market to make a point about the use of transportation credits.

In the strictest sense, a market that has enough locally produced milk to satisfy its *Class 1* needs plus a moderate reserve (20 to 25 percent) to account for fluctuations in demand and supply for Class 1 products is not deficit. In the case of the Southern California Milk Marketing Area, enough milk was produced in May 2001 to serve all of its Class 1 needs and maintain a 30 percent standby reserve. Nonetheless, dairy farmers incurred a cost of nearly $100,000 in transportation credits alone during May 2001 to bring milk from the South Valley to serve Class 1 plants. For all of 2000, the total cost of transportation credits to bring milk from the South Valley to serve Class 1 plants was about $2 million. Furthermore, fluid milk processors in Southern California routinely support the annual implementation of call provisions as a standby mechanism for obtaining adequate milk. This statement of fact merely underscores the point that milk produced locally does not necessary move to the fluid milk plants despite the quantity of milk that continues to be produced in the area.

Where the Panel is Coming From — The panel recognizes that there are increasing motivations to obtain milk movement incentives, whether they be transportation allowances or credits. Obtaining new or higher rates for transportation credits may add to the competitiveness of the affected processors. Likewise, a processor who has historically received a transportation credit may have a competitive advantage created by the current regulatory framework that was unintended at the time the transportation credit was implemented. The panel recognizes that the current market structure evolved, in part, from regulations that were established many years ago. However, with marketing conditions being so dynamic, a regulatory structure that historically served its purpose adequately may not continue to do so in the future.

The panel shares a common interest in improving competition by minimizing regulations that may be encouraging uneconomic milk movements and unfairly discriminating against plants that do not receive transportation credits. Within this context, the panel has three options to consider when working toward equalized competition among processors — provide more transportation credits to processors not currently eligible for them, reduce the transportation credits to processors who currently receive them, or a combination of the two. The panel chooses the first option. As such, the panel recommends a proactive approach to improving competition by creating an additional transportation credit for locally supplied milk. The existing transportation credit available for moving milk from Tulare County to Southern California will remain unchanged.

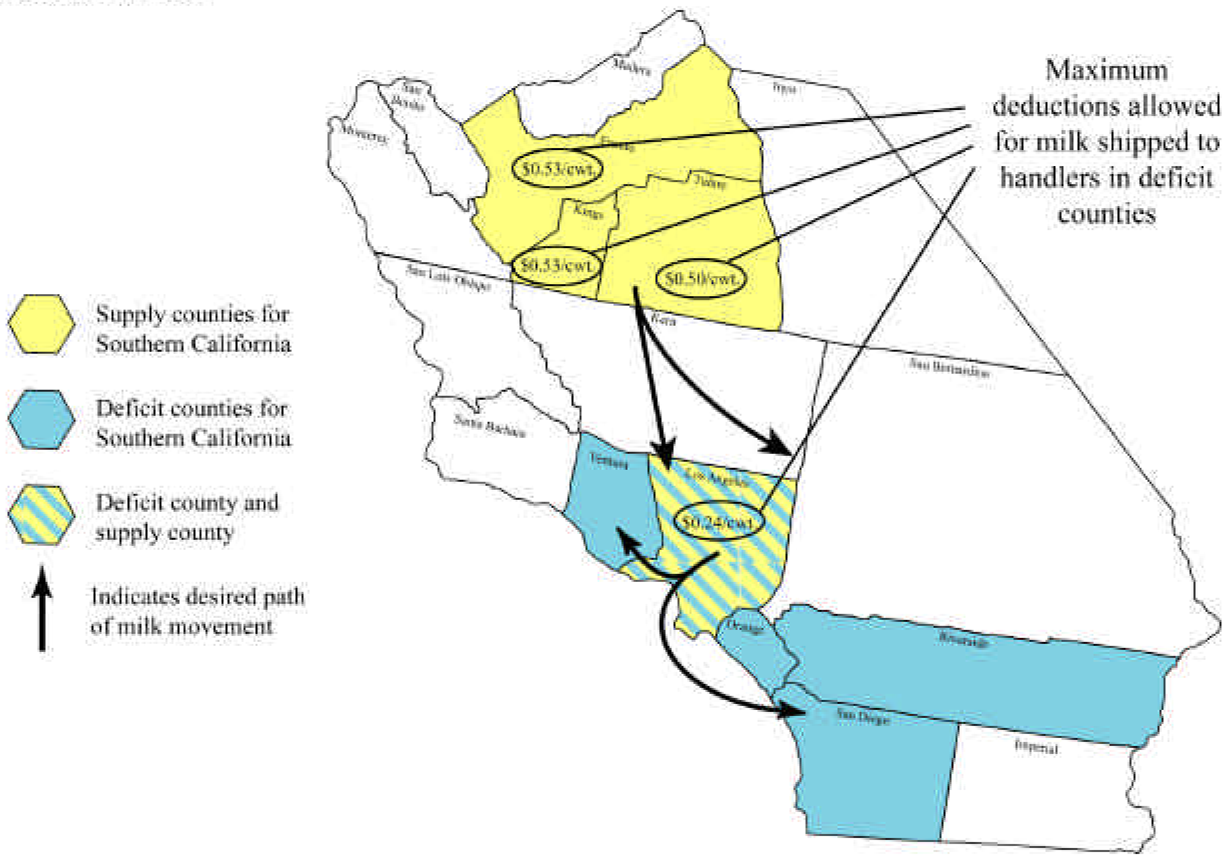
Using the Department's data that summarizes hauling costs throughout California for January 2001 and testimony from the hearing, the hauling cost from Southern San Joaquin Valley to Southern California averaged $0.92 per cwt. over the last 12 months. For milk moving from Tulare County into Southern California, the combination of the milk marketing area differential of $0.27 per cwt. and the transportation credit of $0.50 gives a total of $0.77 per cwt. The difference between the incurred hauling costs and the financial incentive to move milk is $0.15 per cwt., which provides a guideline for establishing a transportation credit within Southern California.

Using the Department's hauling cost data survey and testimony from the hearing, the cost of haul from the Los Angeles area to Riverside is about $0.39 per cwt. To accomplish the panel's objectives, a transportation credit of $0.24 per cwt. would have be established. The transportation credit would apply to plant–to–plant shipments of milk and skim from Los Angeles County to Ventura, Orange, Riverside and San Diego Counties (Figure 1). All other provisions contained in the Stabilization Plans would also apply accordingly.

Panel Recommendation — Create a transportation credit of $0.24 per cwt. for milk and skim shipped from Los Angeles County to Ventura, Orange, Riverside and San Diego Counties.

Figure 1. Recommended Amendment to Transportation Credit System

Under the transportation credits system, milk moves from supply counties to designated deficit counties. Tulare, Kings and Fresno Counties are designated supply counties. Ventura, Los Angeles, Orange, San Diego and Riverside Counties are designated deficit counties. The recommended amendment designates Los Angeles County as a supply county for serving Ventura, Orange, San Diego and Riverside Counties



Call Provisions

What they are and how they work — Milk movement requirements, commonly referred to as "call provisions", were instituted in 1979. They function by bestowing a ranking system for quota milk use when insufficient milk supplies are available to meet the demand for fluid milk. Basically, call provisions require that manufacturing plants participating in the pool (i.e., plants receiving milk entitled to the quota price) must make a portion of the milk received available to plants processing Class 1 dairy products upon request. Because call provisions allow fluid plants to request milk from manufacturing plants, the impact of producer shipment decisions are mitigated. In other words, it does not matter to which plant a producer ships milk; call provisions give qualifying Class 1 plants the ability to obtain milk from manufacturing plants when it is needed.

The Department receives public comments from June 10 to July 10 each year concerning the implementation of these provisions. Upon reviewing the comments and assessing market conditions, call provisions may be implemented for any period of one or more months from September through April each, the period during which milk production is seasonally low. The Department may also decide not to implement call provisions at all.

Discussion

The panel has long viewed call provisions as a standby mechanism that can be applied to force milk to move appropriately if milk is needed by Class 1 plants. There is virtually no cost to implementing call provisions, but there is tremendous potential benefit of having an effective procedure and responsive system to provide Class 1 plants with milk when. Formal calls for milk by Class 1 plants (i.e., transactions for milk that involve the Department) are rare because plants typically negotiate the transactions between themselves.

Call provisions work in the vein of promoting orderly, efficient, predictable and sustainable movements of milk to Class 1 plants. The panel prefers the option of implementing call provisions and not having them used to that of not implementing call provisions and then reacting to a demonstrated need to try to implement them quickly. The panel notes that there has only been one year since 1984 that call provisions were not implemented. During that year, fluid milk plants reported difficulty in obtaining adequate supplies when schools were opened in September. Lastly, the hearing record shows that there is widespread support among processors and almost no opposition by other organizations to implementing call provisions.

Panel Recommendation — The panel recommends the permanent implementation of call provision each year from September through April, which requires elimination of the public comments period. All other provisions for analysis and announcement of level of performance required will remain the unchanged.

ATTACHMENT A–1

Summary of Panel Recommendations and Arguments

Recommendation: Create a transportation credit that designates Los Angeles county as a supply county and Ventura, Orange, San Diego and Riverside as deficit counties with an applicable rate of $0.24 per cwt.

Arguments in Favor of Panel Recommendation

1. Encourages local Los Angeles area plants to supply Southern California Class 1 handlers
2. Promotes the concept that the closest milk should move first
3. Gives a financial reward to those plants who serve the Class 1 market
4. Potentially saves the pool thousands of dollars in transportation credits by replacing long distance movements with shorter hauls
5. Levels the competitive "playing field" among plants serving Class 1 handlers

Arguments Opposed to Panel Recommendation

1. Adding another transportation credit goes against the logic that producers should not be responsible for the second haul of product to the marketplace.
2. Recommendation is a "band–aid" on the current system and does not address the underlying problems being caused by encouraging uneconomic movements of milk from the South Valley.
3. More regulations, rather than fewer, are not market–oriented.

Recommendation: Institute call provisions each year from September 1 to April 30 with the specific level of performance to be determined each year by analyses.

Arguments in Favor of Panel Recommendation

1. Implementation of call provisions has received overwhelming support from most Class 1 processors.
2. Only one time since 1984 have call provisions not been implemented by the Department.
3. Streamlines a process that most of the industry takes for granted.

Arguments Opposed to Panel Recommendation

1. Does not allow those opposed to call provisions to express a reason for not implementing them.

ATTACHMENT A-2

Summary of Evidence, Testimony and Post Hearing Briefs

William Schiek — *Dairy Institute of California*

Testimony:

- ✓ Historically the transportation credits have been set at levels that do not fully compensate handlers for their shipment costs.
- ✓ Shortfalls are supported by Dairy Institute
- ✓ Continues to believe that some type of milk movement incentive system is necessary
- ✓ Milk should be attracted to Class 1 plants at order prices, i.e., premiums should not be a necessary part of attracting adequate supplies of milk.
- ✓ Some producers held incorrect views that the sole purpose of the Class 1 price differential is to enhance producer income rather than recognizing that it was designed to assure that Class 1 markets are served.
- ✓ Existing order prices paid by procesors are high enough to provide more than enough revenue to attract milk for Class 1 and mandatory Class 2 purposes.
- ✓ Dairy Institute continues to believe that a system which provides positive incentives for producers to ship to Class1 and Class 2 plants is appropriate but support a much more modest amendments to the existing program.
- ✓ Continue to support the establishment of a subcommittee to look at all existing plants milksheds, and transportation costs and hauling rates for producers shipping to those plants to determine the appropriate allowance and credit rates for various locations.
- ✓ Without a comprehensive and disaggregate review of hauling costs, uncomfortable with making more than modest changes to the milk movement incentives at this time.
- ✓ Dairy Institute continues to support the principle that transportation allowances rates should be set equal to the difference between the cost of the local haul and the cost of the haul to fluid plants in metropolitan markets.
- ✓ Support adjustments to the allowance rates for shipments from the South Valley to Southern California.
- ✓ Current rates seem to create an incentive for inefficient milk movement.
- ✓ CDI and LOL proposals regarding transportation allowances do much to improve the current situation.
- ✓ Favors the LOL proposal of creating more mileage zones, it has the potential to promote more efficient movement.
- ✓ Dairy Institute opposes the petition from Imperial County because the current milk supply appears inadequate to warrant its inclusion in the counties eligible to receive transportation allowances.
- ✓ The transportation allowance has not been used in the past as an economic development tool to encourage the relocation of dairies to a particular area.
- ✓ Opposes MPC’s proposal in that nearby milk should be encouraged to move to Class 1 uses ahead of more distant milk.

- ✓ Opposes any changes to the transportation credits into Southern California from Tulare at this time.
- ✓ CDFA should leave transportation credit rates unchanged to stabilize the existing supply relationships within the industry.
- ✓ Supports the continuation of the call provisions. Under these provisions handlers are given an incentive to voluntarily supply milk for fluid uses if call provisions are implemented.
- ✓ Call provisions are necessary as a standby mechanism.
- ✓ Oppose any changes to the Class 1 area differential at this time.
- ✓ They have not been subject to industry study and review.
- ✓ Supports continuation of the RQA's that quota holders have an obligation to ensure that Class 1 markets are served. No changes at this time.
- ✓ Supports adjustments to the allowance rates for shipments from Central Valley to the Bay Area.
- ✓ Supports the proposal by CDI for a 4 cent per hundredweight increase in the allowance rate.
- ✓ The increase needed for the greater than 199 miles zone should be somewhat less than 4 cents to encourage the milk in the closer brackets to move first.
- ✓ Opposes the proposal of Producers Dairy.
- ✓ Maintains that milk movement incentives are needed to encourage shipments to deficit metropolitan area fluid milk plants at order prices.
- ✓ Does not believe there is a credible reason to establish a receiving area for Fresno.

Post Hearing Brief:

- ✓ Opposes any changes to the transportation credit rates at this time.
- ✓ If CDI's concerns have merit, prefer that the Department take a pro-competitive approach by giving CDI – Artesia a transportation credit rather than reducing the credit for Tulare as CDI proposes.
- ✓ Believes that the Department's published data on plant to plant and ranch to plant hauling rates indicate the modest changes in transportation allowance sin specific areas are warranted.
- ✓ A thorough and detailed study of all hauling rates should be completed before making changes.
- ✓ Class 1 price differential is intended to reflect the cost of moving milk to Class 1 plants.
- ✓ From the South Valley the highest incentive needed for plant to plant movement is about $0.67 per hundredweight.
- ✓ The Southern California Class 1 differential of $2.27 to $2.34 per hundredweight provides more than enough revenue to reflect the cost of Grade A conversion and Class 1 milk movements.
- ✓ Northern California Class 1 differential of $1.99 to $2.07 per hundredweight is much more than adequate to fund the extra costs of market grade milk production and the cost of attracting milk to the deficit areas.

Gary L. Korsmeier — *California Dairies Inc.*

Alternative Proposal:

- ✓ Propose changes on transportation allowances and credits include Section 921.2 for plants located in the Bay Area receiving area, zero to 99 miles $0.24 per cwt.
- ✓ For plants located in Southern California receiving area from Kern, Kings, Santa Barbara and Tulare Counties (not Fresno) zero to 119 $0.00, Over 119 to 149 $0.46 per cwt and over 149 miles $0.59 per cwt.
- ✓ Subsection (3) should be deleted
- ✓ Section 300.2 Tulare County $0.30 cwt to Los Angeles, Orange and Riverside not San Diego or Ventura Counties.
- ✓ The proposed changes are reflective of current hauling costs and changes in supply arrangements in the Southern California marketplace.

Testimony:

- ✓ CDI opposes the expansion of transportation allowances for Imperial County.
- ✓ Transportation allowances should not be used as a business development tool.
- ✓ Opposes Producers Dairy proposal in that Fresno County is not a deficit area
- ✓ Support LOL, the need to adjust transportation allowances into Southern California because of escalating costs is the basis for their alternative proposal.
- ✓ Opposes LOL recommended changes to transportation credits.
- ✓ Do not support MPC's proposal.
- ✓ CDI proposes to increase the rate from $0.20 per cwt $0.24 per cwt for mileage 0 to 99.
- ✓ Request a change to 921.2(e)(2) by adding Santa Barbara County as an area that can obtain transportation allowances to the Southern California receiving area and deleting Fresno County.
- ✓ With inclusion of Santa Barbara County there is no need for the continuance of Section 921.2(e)(3) and therefore should be deleted.
- ✓ Recommend changes are to Section 921.2(e)(2)(10 in both mileage brackets and rates.
- ✓ From Kern, Kings, Santa Barbara and Tulare Counties, 0 to 119 miles $0.00, over 119 to 149 miles $0.46 per cwt and over 149 miles $0.58 per cwt.
- ✓ Have historically supported a slight shortfall from milk movement from Tulare County.
- ✓ Propose a reduction in the transportation credit to $0.30 per cwt for shipments from Tulare County to Los Angeles, Orange and Riverside Counties.
- ✓ Not recommending total elimination of transportation credits; just equalization among suppliers.
- ✓ Transportation credits to the Southern California marketplace today charge most of the second haul to the Statewide producer pool.
- ✓ Proposal increases the shortfall to $0.39 per cwt to allow for a local processor in Southern California to be competitive with an out of area processor.
- ✓ The current system penalizes an available local supplier.
- ✓ Remove the inequity and reduce the transportation credit from Tulare to Southern California from $0.50 per cwt to $0.30 per cwt.

Post Hearing Brief:

- Basic principles of transportation allowances are to encourage milk movement from closer distances and build in a disincentive from further locations.
- CDI's proposal incorporates new mileage brackets and rates, which adequately accomplishes the objectives of transportation allowances.
- CDI's proposal will leave a $.065/cwt. disincentive from Tulare County and will cover the current movement costs from the county of Kern.
- With regards to milk movement from less than 119 miles to Southern California, CDI is not aware of testimony supplying cost-justified data to support a reduced mileage bracket.
- Land O' Lakes opposed the addition of Santa Barbara County in receiving an allowance, while CDI believes the actual mileage distance of the dairies to even Ventura County is more than the 149 mileage bracket that would receive the maximum allowance of $.58/cwt. in CDI's proposal. If the distance is less than 149 miles, then this movement would receive the lower allowance of $.46/cwt.
- CDI supports the elimination of Section 921.2(e)(3) because the mileage brackets should be the same for Kern, Kings, Santa Barbara and Tulare Counties.
- Regarding transportation credits accepting Land O' Lakes recommendation of $.695 CDI would be disadvantaged to the level of almost $.40/cwt.
- There will be no options for Southern California processors that desire tailored products without a reduction in transportation credits.
- Land O' Lakes will be the only player; cannot imagine how that will benefit anyone other than Land O' Lakes in the long term.
- CDI has a long history in supplying the needs of Class I processors, especially in Southern California.
- CDI does not accept the argument that reducing credits will encourage out of state milk movement.
- The concern for transporting cream back to Tulare if tailored products in not purchased from Tulare is a weak argument.
- The argument of institutional factors also no longer exists today because it all boils down to economics.
- CDI has requested to reduce transportation credits to $.30/cwt. into Southern California only to make it an equal playing field. CDI should be afforded the opportunity to be competitive.

Geoffrey Vanden Heuvel — *Milk Producers Council*

Alternative Proposal:

✓ The current transportation subsidy system is inequitable.
✓ Rules and mileage brackets have no logical consistency between regions and certain producers and certain plants are discriminated against for no justifiable reason.
✓ All Class 1 plants in California should qualify for milk movement incentives.
✓ All California Grade A milk production is eligible.

- ✓ The allowance starts at some mileage greater than zero and the starting point is the same throughout the State.
- ✓ The allowance zones out in logical increments with a slight shortfall applied progressively to each mileage increment.
- ✓ Transportation credits continue but shall not exceed the rate for the distance traveled.
- ✓ MPCs proposal eliminates the current county based discrimination against fluid plants and producers and establishes consistent statewide mileage criteria to the system.
- ✓ The inclusion of all Class 1 plants and all production addresses the discrimination issues and allows for the shifts in milksheds and population centers that have taken place and will continue to take place.
- ✓ Reevaluate the standard for "constructive miles" to assure that it still is effective in normalizing the difference between open highway miles and congested urban miles.

Testimony:

- ✓ MPC has held the position that the transportation allowance and credit system is unnecessary.
- ✓ The Call Provisions contained in the various plans are all that is needed in the way of State imposed regulations.
- ✓ It is the consensus of the industry that the state must provide within the regulated Plans, specific Class 1 incentives to ensure that milk moves to Class 1 handlers.
- ✓ The current system is not equitable.
- ✓ The system assumes milk has a location value.
- ✓ It assumes it is more efficient to haul milk in bulk form from a production area to a bottling plant in an urban area that it would be to bottle milk in the production are and transport it in packaged form.
- ✓ The current system also assumes that there are distinct urban receiving areas that are separate and different from rural "supply" areas.
- ✓ The current system provides incentives in the form of transportation subsidies to move bulk milk to Sacramento and San Francisco and no incentives to move milk to bottlers in Modesto and Fresno.
- ✓ Southern California producers located in the Inland area must pay the full cost of transporting milk to the Los Angeles and Orange County bottling facilities.
- ✓ Results in South Valley producers hauling rate being significantly lower than the Southern California produceres hauling rate.
- ✓ The Department's own analysis shows that there are significant cost savings that accrue to the bottling facility in the plant to plant arrangement.
- ✓ Transportation credit from Tulare to So. California is so generous that it makes it virtually impossible for standardized So. California produced milk to be price competitive in So. California.
- ✓ MPC proposes to make all Class 1 plants eligible for milk movement incentives.
- ✓ Only drop the county criterion.
- ✓ Make all grade A milk production eligible.
- ✓ Establish constructive mileage brackets that are consistent for every Class 1 plant in the state.
- ✓ Have no subsidy available for milk located within 15 miles of the plant.

- ✓ Continuation of the transportation credit system with the requirement that the combination of the area Class 1 differential and the transportation credit shall not exceed rate for the distance that milk travels.
- ✓ Not proposing to change the definition of constructive mileage.
- ✓ Imperial County production would be eligible for transportation allowances.
- ✓ Non producer-distributor milk shipped to the Producers Dairy, Fresno bottling plant would be eligible to receive an allowance.
- ✓ MPC proposal similar to CDI's reducing transportation credit from $0.50 to $0.30.
- ✓ Strongly support the concept of a shortfall.
- ✓ LOL seeks to enhance their competitive position with regards to transportation credits.
- ✓ It is true that quota held by producers in the Southern California region is not subject to a negative Regional Quota Adjusted.
- ✓ RQA's are not class 1 incentives but are recognition of the location differences in the value of milk and the cost of production.
- ✓ MPC proposal by starting the allowance at 15 miles distant restores the incentive in Southern California.
- ✓ The current system makes all producers pay, but picks and chooses rather arbitrarily who may take advantage of the program.
- ✓ Discrimination is cheaper, but it is not the right thing to do.

Post Hearing Brief:

- The MPC program was designed to meet the primary criteria identified at the Department's Transportation Workshops.
- MPC supports moving the closest milk first; moving milk at least cost and providing those people who serve the class 1 market some compensation or assistance in their transportation cost.
- MPC proposes moving the closest milk first by starting the transportation allowance at 15 miles.
- The current program discourages rather than encourages the closest milk to move to the class 1 handlers in the Southern California receiving area.
- Moving the mileage bracket to 15 miles statewide makes eligible for transportation incentives, significant amounts of milk that is located much closer to the Southern California class 1 bottlers than is currently the case.
- It is rational to assume that producers who have a local haul to a Class 1 plant of less than 15 miles should be paying a haul rate that is lower than the $.23/cwt.
- The current transportation allowance system is unnecessarily inflating costs because it subsidizes producers who need no subsidy.
- MPC proposal makes the vast majority of the milk that serves the Class 1 market eligible for transportation incentives.
- Corona and the Sorrento plant suppliers are subject to the call provisions, which by definition makes them part of the available reserve supply.
- The current milk movement patterns in Southern California are a creation of the current transportation program.
- If MPC's proposal adopted the incentive to haul the local milk to the class 1 handlers will be created.

- MPC notes that a positive response to that policy may make milk procurement more difficult for manufacturing plants. But the purpose of the transportation subsidy program is "to attract milk to fluid plants in metropolitan areas at order prices."
- MPC's proposal does not significantly change the rates or general mileage brackets currently in place. It expands the program with built in shortfalls to the structure, which limits the abuse of the system.
- Constructive miles take into account "elements of highway traffic, such as congestion and controls."
- MPC's plan would still have Crystal as a qualified receiving plant and in fact would see an increase in the allowance available to producers located 15 or more constructive miles from their plant.
- MPC's plan includes significant shortfalls for far away milk from fluid plants.
- Puts into place an incentive to actually move the close in milk first.
- Fresno is located in the middle of the largest surplus area in the country.
- Land 'O Lakes points out "The area differential according to Ag Economists should reflect the difference in freight costs from an area of surplus to a deficit market."
- Fresno is a surplus area so Class 1 price should be lower in Fresno than it is in Sacramento and Bay area. There is no reason to exclude Fresno or Modesto.
- No difference between the Santa Barbara circumstance and the Imperial County situation.
- No rational reason to oppose the Imperial County request.
- MPC proposes using constructive miles to address the congestion issues faced by the various regions and the mileage brackets and rates are consistent with the current program.
- MPC proposal does indicate that if nothing were to change, the proposal would cost a few cents per cwt. more than the current program.
- They emphasized at the hearing that the current program is unfair and inequitable.

James W. Gruebele, Consultant — ***Land O' Lakes***

Alternative Proposal:

- ✓ LOL opposes the proposal by Milk Producers Council and the proposal by Imperial County.
- ✓ The pool does not need to be used for economic development for the Imperial Valley.
- ✓ Milk movement information suggests that Southern California is a deficit market and that the transportation credit and allowance programs are needed to ensure adequate supplies of pure and wholesome milk for Class 1 purposes in Southern California.
- ✓ Southern California market area is losing producers and milk production.
- ✓ Recommend adjustment to the current transportation allowance in Article 9.2, Section 921.2.
- ✓ The current transportation allowance is inadequate to cover the cost of moving milk from the South Valley to Southern California Class 1 milk plants.
- ✓ If milk is needed for Class 1 purposes then the transportation allowance should be adequate to cover that cost so as to not disadvantage a producer from serving the Class 1 market.
- ✓ LOL recommends that the transportation credit be increased from $.50 to $.695.
- ✓ This is needed to make up the difference between the freight cost and the area differential between the South Valley and Southern California for plant to plant movement.

- ✓ The remainder of schedule remains unchanged.
- ✓ CDFA published data which showed more efficient to utilize plant to plant milk than when using ranch to plant milk movement.
- ✓ The demand for low fat products continues to be strong.
- ✓ To maintain equal raw product costs for California fluid milk operations it is necessary to update the transportation credit to reflect the cost of moving the milk.
- ✓ Transportation credits would compensate for some of the cost differences in moving milk from an area of surplus in the South Valley to deficit markets in Southern California.
- ✓ Data clearly shows Southern California's milk production is declining.
- ✓ Milk is needed in Southern California.
- ✓ The milk shipped to Southern California is primarily used for Class 1 purposes.
- ✓ Most of the milk moved to Southern California is tailored milk.

Testimony:

- ✓ LOL opposes the proposal by MPC and the proposal by Imperial County.
- ✓ The pool does not need to be used for economic development for Imperial County.
- ✓ Opposes the proposal by CDI to reduce the transportation credit from $0.50 to $0.30 per cwt.
- ✓ LOL opposes the proposal by Western United Dairymen.
- ✓ A market which has less than 30 to 35 percent reserve is termed a "deficit market".
- ✓ The percent of fat in Class 1 in Southern California in 1999 was 2.37 percent and the solids not fat percentage was 9.61 percent.
- ✓ A decision was made to introduce a transportation credit program to replace the area differential in part.
- ✓ The Department can used call provisions to ensure that milk will be released for Class 1 uses if needed.
- ✓ LOL strongly supports the continued uses of programs to ensure that adequate supplies of milk be made available for Class 1 uses.
- ✓ For plants located in the Southern California receiving area, which shall consist of the counties of Los Angeles, Orange and Ventura:

(1) From Imperial, Inyo, Los Angeles, Mono, Orange, Riverside, San Bernardino San Diego, and Ventura Counties $0.00

From Fresno, Kern, Kings, and Tulare Counties:

From zero through 75 miles	$0.00
Over 75 miles – 125 miles	$.4525 cwt
Over 125 miles – 160 miles	$.575 cwt
Over 160 miles	$.645 cwt

- ✓ LOL recommends Stabilization and Marketing plan be increased from $0.50 to $0.695 or an increase of $.195 per cwt for milk shipped to the Riverside plant.
- ✓ Recommends that the remainder of the schedule remain unchanged.
- ✓ LOL has served plants in So. Cal on a plant to plant basis for about 40 years.

- ✓ Proposed that the Swiss account have a separate transportation credit because of the additional distance involved.
- ✓ Have argued in the past that plant to plant milk shipments are an efficient means of supplying the Southern California markets with milk.
- ✓ CDFA published data which showed that it is more efficient to utilize plant to plant milk.
- ✓ The demand for low fat products continues to be strong.
- ✓ To maintain equal raw product costs for California fluid milk operations it is necessary to update the transportation credit to reflect the cost of moving milk into the Swiss plant and to other Class 1 plants from the LOL plant in Tulare.
- ✓ A shortfall should be eliminated by increasing the transportation credit from $0.50 to $0.695 per cwt.
- ✓ There is no transportation credit for the milk in lower classes. This provides an additional shortfall for milk moved on a plant to plant basis.
- ✓ LOL is not opposed to the utilization of both the transportation credit and the area differential.
- ✓ Recommend that there be two transportation rates established, one for San Diego and Riverside counties and another for Los Angeles, Ventura and Orange counties.
- ✓ There is a significant quantity of milk shipped to Class 1 milk plants on a plant to plant basis as well as on a ranch to plant basis from the South Valley to Southern California.
- ✓ One of the big advantages of the plant to plant system is that milk can be tailored and the unneeded fat is not shipped to Southern California in the first place.
- ✓ Volumes of milk shipped vary from season to season.
- ✓ The fat test is significantly less than one would find with producer milk.
- ✓ The solids not fat tests are higher than one would find with producer milk.
- ✓ The shortfall places LOL and its customers at an immediate disadvantage.
- ✓ Our recommendation is that the Secretary grant an increase in the transportation credits so that the shortfall is totally eliminated.
- ✓ Opposes the proposal by California Dairies Inc. to reduce the credit from $0.50 to $0.30 per cwt.
- ✓ The elimination of competition in Southern California is going to reduce the overall market performance in that deficit market.
- ✓ A reduction in the transportation credit could encourage operations to bring in out of state milk instead of paying the shortfall amount.
- ✓ If Ventura County is a deficit county one would think that it would make sense to move the milk from Santa Barbara producers to the Class 1 plants in Ventura County.
- ✓ Strongly opposes the Producers Dairy position.
- ✓ Fresno is located in on of the largest surplus milk producing areas in the nation. A transportation allowance is not needed to move milk into a Class 1 plant in this area.
- ✓ Opposed the elimination of the Area differential with respect to Class 1 milk and opposed the elimination of the differences in Class 2 and 3 prices as well.
- ✓ Opposes the proposal by Imperial County. There are only two producers and the pool should not be used for economic development.
- ✓ Opposes the MPC proposal.
- ✓ The MPC proposal would simply apply a transportation allowance for anyone located anywhere if the milk was shipped to a Class 1 plant.
- ✓ Opposes the addition of the transportation credit to producers located in Southern California.

Post Hearing Brief:

- In Land O' Lakes testimony the last paragraph on pg 12 should read "In conclusion we urge the Secretary to deny the requests of CDI regarding Transportation Credits, the MPC proposal regarding allowances and imperial county proposal with respect to allowances for Imperial County and adopt the proposals presented by LOL on transportation allowances and credits".
- Table 2 has been revised the volumes of milk shipped were somewhat larger than the original table submitted.
- Milk production for Southern California is significantly lower for 2001 compared to 2000.
- Southern California is becoming a deficit area.
- Ask that there be no shortfall in the transportation credit or allowance rates.
- CDI has an advantage over LOL.
- It would be a mistake to grant a transportation credit from Artesia to Riverside because Artesia is located in a SNF deficit area.
- It makes sense to utilize the Southern California milk from the ranch to a Class 1 milk plant and to supplement additional Class 1 milk needs with tailored milk from the South Valley.
- LOL has provided milk on a plant-to-plant basis for 40 years.
- Because of mileage under the current system CDI has and would have a competitive advantage over LOL in supplying Riverside with tailored milk.
- Our proposal does not eliminate competition it would have a competitive advantage over LOL in supplying tailored product to the Riverside Class 1 plant because of the proximity of the manufacturing operations for the respective cooperatives.
- LOL recommended a transportation credit from Tulare to Riverside of $0.695 and LOL recommended a transportation allowance of $0.645 over 160 miles.
- The only way to serve Riverside plant is local sources on a ranch to plant basis and from plant to plant from the South Valley.
- The area differential should reflect the freight cost for milk moved from an area of surplus into a deficit market.
- The request of $0.695 for a transportation credit represents the difference in the freight rate from Tulare to Riverside County minus the area differential of $0.27 per cwt.
- The net cost of the plant-to-plant requested credit is lower than the requested ranch to plant allowance from the same geographic area.
- In Federal Orders transportation credits are larger for plant-to-plant shipments for the same mileage than the credits for milk shipped ranch to plant.
- By tailoring the milk the SNF are shipped in a very efficient manner. Plant to plant program makes sense.
- The CDI proposal would not only discourage plant-to-plant shipments from Tulare it would also have the same effect on shipments from Tipton.

Stephen L. Birdsall — *Imperial County Agricultural Commissioner*

Proposal:

- ✓ San Diego County be included as a receiving area for Southern California.
- ✓ Imperial County be removed from the list that specifies counties that are to receive no transportation allowance.
- ✓ Imperial County be added to (e)(2) as a county to receive a transportation allowance.
- ✓ Makes no recommendations to change the rates of the mileages and the amounts that apply currently.

Testimony:

- ✓ Milk plants in deficit areas have favored purchases from producers and plants in areas that receive a transportation allowance.
- ✓ The fact that Imperial County does not receive a transportation allowance puts future producers in the Imperial County at a considerable competitive disadvantage in selling to current and future deficit area plants.
- ✓ The economic feasibility of dairying in the Imperial Valley; however, is importantly determined by profitability which in turn is largely influenced by transportation costs.
- ✓ Imperial County is NOT new in the dairy industry.
- ✓ Milk can be produced on a dairy farm in the Imperial Valley at least as efficiently and cheaply as in the Southern San Joaquin Valley.
- ✓ Imperial County is planning to use transportation and allowance subsidy as business development tools to attract dairies to relocate to Imperial County.
- ✓ There is a Southern California dairy that has land in escrow in Imperial County.
- ✓ Once this dairy reaches full production, Imperial County will then be in an oversupply situation.
- ✓ Recognizes that at this point in time Imperial has no need for a transportation allowance.

James E. Dolan — *Driftwood Dairy, El Monte, CA*

Testimony:

- ✓ Has historically purchased our milk from the Southern San Joaquin Valley up until the Marketing Association was formed.
- ✓ The Marketing Association has now partially disbanded; wish to re-establish ties with previous supplier in the South Valley.
- ✓ Testifies against the disincentive to ship milk into plant.
- ✓ The Chino Basin milk supply is decreasing while the overall demand is increasing.
- ✓ Production in the Southern California basin is going to continue to decline.
- ✓ LOL is asking for an increase in the transportation credit; support their testimony completely.

Post Hearing Brief:

- Have had unpredictable service with unknown sources of milk supply.
- If Tulare milk is made to be noncompetitive there will be no reason for the local supplier to solve these services problems.

Kevin McLaughlin — *Security Milk Producers Association*

Testimony:

- ✓ Transportation subsidy program should provide equity in costs and values, insure the Class 1 market gets served; encourage efficient and orderly marketing; and anticipate the relocation of milk sheds.
- ✓ SMPA supports the principles detailed in the MPC proposal.
- ✓ The transportation allowance must represent the difference of a local haul rate and a long distance haul rate.
- ✓ The most recent data for January 2001 indicates increased hauling costs, over January 2000 levels.
- ✓ The effective cost to supply LA for a producer located closer to LA, in Bakersfield, is greater than the effective cost to supply LA from Tulare.
- ✓ Believes that this is contrary to the intent of the Plans.
- ✓ We feel that even eight cents per hundredweight creates too large of a shortfall.
- ✓ The MPC proposal also allows for the shifts in milk sheds and population centers that have happened, and will continue to happen.
- ✓ The principle seems clear to us that discrimination against certain counties should end.
- ✓ All counties should be designated eligible supply counties.
- ✓ All Class 1 plants should qualify.
- ✓ We ask that you remove the “receiving area” and “supply county” stigmas.

Post Hearing Brief:

- SMPA believes the Milk Producers Council proposal to be the only true concerted effort to correct the inequities and discrimination in the current Milk Movement Incentives.
- The Department has the opportunity correct the inequities, remove the outdated discriminating stigmas and include all plants with more than 50% Class 1, 2 and 3 usage.
- Include milk produced in any county within the State.

David L. Parrish, Vice President — *Dairy Farmers of America, Inc.*

Testimony:

- ✓ In addition to our own plants DFA supplies significant amounts of bulk milk to Class 1 handlers and other customers.
- ✓ We wish to recommend some changes to the transportation allowance program in the Northern California marketing area.

- ✓ Section 921.2 (a) for plants located in the Bay Area receiving area, which shall consist of the counties of Alameda, Contra Costa, Santa Clara, San Francisco, and San Mateo:
  - (1) From zero through 99 miles $0.24 per CWT
  - (2) From 99 through 199 miles $0.28 per CWT

- ✓ Section 921.2 (b) for plants located in the Solano receiving area, which shall consist of the County of Solano:
  - (1) From zero through 44 miles $0.15 per CWT
  - (2) Over 44 miles through 99 miles $0.20 per CWT
  - (3) Over 99 miles $0.25 per CWT

- ✓ Has milk moving within the mileage bracket over 99 miles through 199 miles to the Bay Area Class 1 plants.
- ✓ Does not have any milk being shipped from more than 199 miles and cannot recommend a change to that mileage bracket.
- ✓ Proposes a change to accommodate the increases in the haul rate to the Class 1 plant in Solano County.

Gary M. Stueve, California Regional Director — *Dean Foods Company*

Testimony:

- ✓ Approximately 90% of milk is purchased directly from independent producers.
- ✓ Supports the original petition by the Imperial County Agricultural Commissioner's Office.
- ✓ Supports in concept the alternative proposal submitted by Milk Producers Council.
- ✓ Believes that transportation allowances should meet the two basic sets of criteria, move adequate, regular and competitive milk supplies to non-Class 4 plants, and be equitable in participation opportunities across all supply and receiving areas.
- ✓ Because plants in San Diego County are currently excluded, attracting California milk to our Escondido plant is difficult and/or costly.
- ✓ Plants located in San Diego County should be treated no differently than those in other Southern California counties.
- ✓ Tulare and Imperial Counties are equal distances to the Los Angeles market, both are viable agricultural areas, both can profitably produce milk and both have alternatives other than supplying the California Class 1 market.
- ✓ Supports an enhancement of transportation allowances as proposed by LOL but we are opposed to the suggested increase in transportation credit.
- ✓ The CDI proposal leaves unanswered the question of Imperial County and other potential milk production areas.

Richard Shehadey, President — *Producers Dairy Foods in Fresno, CA*

Testimony:

- ✓ Are a producer-distributor for a small portion of our milk sales.
- ✓ The current transportation allowance system is unfair and not equitable.
- ✓ Feels that either all Class 1 plants should receive the transportation allowance on a uniform mileage scale or no one should receive it.
- ✓ Does not believe that raw milk located within 15 miles of a processing plant should receive a subsidy.
- ✓ The brackets could be set a 25 mile increments with a shortfall built into the rates for milk that is hauled longer distances.
- ✓ It makes more sense to include all Class 1 processing plants as “receiving plants” instead of by geographic “receiving areas”.

Rick Sturgeon, Vice President Western Region — *Suiza Foods Corporation*
Charles English, Consultant — *Suiza Foods Corporation*

Testimony:

- ✓ Give modified support to the LOL proposal and in opposition to the proposal of CDI and MPC proposals.
- ✓ Oppose Western United’s Proposal.
- ✓ Southern California is a deficit market.
- ✓ A reasonable reserve must also be an **available** reserve.
- ✓ The volume of milk committed to Corona Cheese plant and to the Sorrento plant also in Southern California cannot be expected to be part of the reasonable available reserve.
- ✓ Southern California is most certainly a deficit market with respect to SNF.
- ✓ Call provisions were used last year with respect to Southern California.
- ✓ Disagree with CDI in that milk purchased by us is available at a cheaper “cost” than they can provide.
- ✓ Why effectively increase the cost of milk to the Class 1 bottler when the Class 1 bottler is paying the Class 1 price for the privilege of receiving a milk supply.
- ✓ Suggest that CDI’s request for a reduction in transportation credit has less to do with the claimed competitive disadvantage and more to do with its over-order pricing intentions should the Department adopt their proposal.
- ✓ Does not believe that there is a cost advantage for South Valley tailored milk.
- ✓ Department’s own analysis from last year demonstrate that plant to plant movements are actually more efficient than ranch to plant movements.
- ✓ The 5 cent per cwt shortfall maintained by CDFA should be retained.
- ✓ This is no justification to increase that shortfall.
- ✓ The transportation credit should be increased to a level leaving only the $0.05 shortfall for Riverside or 64.5 cent per cwt.

Post Hearing Brief:

- There was no philosophical support for an open revolution regarding these milk movements provisions, except for Milk Producers Council's official position that they should be abolished.
- Equity is an important factor in any regulatory system.
- Suiza rejects the concepts advanced by MPC and CDI that everyone must be treated alike and that credits and allowances should be equal.
- Equity does not move milk, it takes money to move milk.
- Suiza endorses the LOL transportation credit proposal with a modest shortfall.
- We endorse the concept of including Imperial County as a surplus supply county and San Diego as a deficit county.
- Suiza rejects the concept of CDI's proposal to significantly reduce the transportation credit from the South Valley to Riverside and instead would endorse a proposal to widen the credit's use by applying credits from Artesia to Riverside.
- The need to move milk to Class 1 market remains.
- Southern California has been and remains a deficit market in terms of milk available for the fluid market.
- Southern California and Northern California must be treated differently for transportation credits and allowances.
- LOL transportation credit proposal is fair and equitable.
- LOL's proposal should be modified for a modest shortfall, Imperial and San Diego counties and potential credit from Artesia to Riverside is fair and equitable.
- The industry saves 6.2 cents per cwt on the milk moved.
- The idea that transportation allowances and credits should be equal has merit.
- A modest shortfall, in the applicable federal orders 2 cents per cwt, is established to encourage efficient movements.
- Allowances and credits should both be increased and milk movements from the surplus South Valley region to Southern California need to be encouraged not discouraged.
- Suiza urges rejection of the CDI and MPC proposals.

Sharon Hale, Vice President — *Crystal Cream and Butter Company*

Testimony:

✓ The proposal put forth by MPC we are pleased with their recognition of the need for milk movement incentives.
✓ Our appreciation however is not sufficient to prevent opposition to this proposal.
✓ The proposal fails to consider the differences between markets.
✓ We are also opposed to starting allowances at some mileage greater than zero.
✓ Our final comment about MPC involves the cost. To us this is an equity issue among participants in the pool and it should be confined to that same group.
✓ Opposed to Producers Dairy proposal

- ✓ Believes population growth of this magnitude is sufficient to conclude demand in the Sacramento area remains strong.
- ✓ Sufficient justification for retaining transportation allowances in Northern California has been given.
- ✓ Option II of Producers Dairy's proposal does not appear to be necessary.
- ✓ Transportation allowances apply to all market milk moving from dairy farms to processing plants which process more than 50 percent of their production into Class 1, 2, or 3 products.
- ✓ This is an important component of any milk movement plan.
- ✓ Believes a review of milk movement issues on a periodic basis is warranted.
- ✓ Believes the system should focus on hauling differences between deficit and alternative markets.

Jay Goold and Tiffany LaMendola — *Western United Dairymen*

Testimony:

- ✓ Oppose the proposal to include Imperial County in the list of supply counties for Southern California.
- ✓ The inclusion of San Diego on the list of receiving counties in Southern California seems to be nothing more than a "good neighbor" gesture.
- ✓ If San Diego were included on the list of receiving counties, it would then make them eligible to receive milk from counties in the South Valley.
- ✓ San Diego County is already adequate to meet the needs of that county.
- ✓ See no reason to support Imperial County's proposal to include them.
- ✓ No reason for producers throughout the state to absorb additional transportation costs for the sole purpose of Producers Dairy being able to compete in distant retail markets where milk supplies already exist.
- ✓ Due to lack of sound justification, oppose both options included in the proposal from Producers Dairy.
- ✓ The single rate allowances proposed do not provide adequate disincentives to prevent far out milk from being shipped in at additional cost to all producers.
- ✓ In order to maintain incentives in place to use the least cost approach of hauling the closest milk to the plant, we oppose all components of MPC's proposal.
- ✓ The smaller increase of approximately $0.14 cwt requested by CDI is in keeping with our policy seeking the most efficient movement and is supported by our Board.
- ✓ Oppose to the proposal for credit modification of this magnitude.
- ✓ Support CDI in their proposal to modify the allowance rate to the Bay Area.
- ✓ Support adding Riverside County to the list of Counties indicated in Section 921.2(e) of the Pooling Plan as a receiving area for Southern California.
- ✓ Support adding Santa Barbara to the list of shipping counties in Subsection (e)(2) and deleting Fresno County.
- ✓ Support amending the mileage area to less than 119 miles.
- ✓ Support amending Section 300.2 of the Stabilization and Marketing Plan as proposed by CDI.
- ✓ Conclude that now is the time for the industry to propose that all area differentials be reduced to zero.

- ✓ Final goal will be to eliminate the economic basis for the need to maintain regional quota adjusters.
- ✓ Our point of view relative to the purpose of regional quota adjusters, was developed over an extended period of time during the development of modifications to the California Pooling Plan in 1984. During this time, plant location differentials were replaced by RQA's.
- ✓ RQA's were developed as a means to allocate producer income out of the pool based upon unequal are Class 1 price income into the pool.
- ✓ Again, it is our intention to continue discussions pertaining to Class 1 price differentials and regional quota adjusters and to submit a petition for an additional hearing to the Department.

Jim Battin, Senator — *Thirty–Seventh Senatorial District*

Testimony:

- ✓ In full support of the request submitted by the Imperial County Ag Commissioner.
- ✓ To receive a transportation allowance for dairies, and also to include San Diego County in the Southern California receiving area.
- ✓ It is essential that we provide incentives in Imperial County to enhance growth of the dairy industry.

Exhibits 46 through 49 and 55 — Letters in Support of Imperial County Proposal

46 – Clifford Caldwell, President – El Centro Chamber of Commerce & Visitors Bureau
47 - Duncan Hunter, Member of Congress – U.S. House of Representatives, Washington, DC
48 - Lauren S. Grizzle, Executive Director – Imperial Valley Vegetable Growers Association
49 - Lauren S. Grizzle, Executive Director – Imperial County Farm Bureau
55 - Donald P. Glud, Vice President – Valley Independent Bank